

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL NOTE

SB 431 - HB 519

March 10, 2011

SUMMARY OF BILL: Reduces the inheritance tax rate by 50 percent for estates of decedents dying in 2012, and repeals the inheritance tax for estates of decedents dying in 2013 and thereafter.

ESTIMATED FISCAL IMPACT:

**Decrease State Revenue – Net Impact - \$31,346,100/FY12-13
\$73,140,800/FY13-14
\$83,189,500/FY14-15 and Subsequent Years**

**Increase Local Revenue - \$406,000/FY12-13
\$947,400/FY13-14
\$1,082,800/FY14-15 and Subsequent Years**

Assumptions:

- Total inheritance and estate tax collections were \$88,866,800 in FY09-10.
- According to the Department of Revenue, approximately \$75,887,700 was inheritance tax collections; the remainder consisted of estate and gift tax collections.
- Inheritance tax collections represent 85.4 percent of total inheritance and estate tax collections (\$75,887,700 / \$88,866,800).
- The current Fiscal Review Committee staff estimate for inheritance and estate tax collections for FY11-12 is \$101,430,000. Inheritance tax collections are assumed to remain constant in subsequent years.
- Under current law, inheritance tax collections for FY11-12 are estimated to be \$86,621,220 (\$101,430,000 x 85.4%).
- Due to the nine-month filing extension, the estates of decedents dying between January 1, 2012, and September 30, 2012, will be processed during FY12-13. The estates of decedents dying between October 1, 2012, and December 31, 2012, will be processed during FY13-14. As a result, inheritance tax collections for decedents dying in 2012 will be allocated 75 percent to FY12-13 and 25 percent to FY13-14. Inheritance tax collection patterns remain constant into perpetuity.
- Fifty percent of tax savings will be spent in the economy on other sales-taxable goods and services.
- A state sales tax rate of 7.0 percent and a local option sales tax rate of 2.5 percent.

- The decrease in inheritance tax revenue for FY12-13 will be \$32,482,958 ($\$86,621,220 \times 75.0\% \times 50.0\%$ rate reduction). The increase in state sales tax revenue for FY12-13 will be \$1,136,904 ($\$32,482,958 \times 50.0\% \times 7.0\%$). The net decrease in state revenue for FY12-13 will be \$31,346,054 ($\$32,482,958 - \$1,136,904$).
- The decrease in inheritance tax revenue for FY13-14 will be \$75,793,568 ($\$86,621,220 \times 25\% \times 50\%$ rate reduction) + ($\$86,621,220 \times 75\% \times 100\%$ rate reduction). The increase in state sales tax revenue for FY13-14 will be \$2,652,775 ($\$75,793,568 \times 50.0\% \times 7.0\%$). The net decrease in state revenue for FY13-14 will be \$73,140,793 ($\$75,793,568 - \$2,652,775$).
- The recurring decrease in inheritance tax revenue for FY14-15 and subsequent years will be \$86,621,220 ($\$86,621,220 \times 75\% \times 100\%$ rate reduction) + ($\$86,621,220 \times 25\% \times 100\%$ rate reduction). The recurring increase in state sales tax revenue for FY14-15 and subsequent years will be \$3,031,743 ($\$86,621,220 \times 50.0\% \times 7.0\%$). The net decrease in state revenue for FY14-15 and subsequent years will be \$83,189,477 ($\$86,621,220 - \$3,031,743$).
- The increase in local government revenue for FY12-13 will be \$406,037 ($\$32,482,958 \times 50.0\% \times 2.5\%$); for FY13-14 will be \$947,420 ($\$75,793,568 \times 50.0\% \times 2.5\%$); for FY14-15 and subsequent years will be \$1,082,765 ($\$86,621,220 \times 50.0\% \times 2.5\%$).

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

/rnc